

**CABINET AFFAIRS STAFFING MEMORANDUM**Date: 2/19/85 Number: 169140CA Due By: \_\_\_\_\_Subject: Cabinet Council on Commerce and Trade Planning MeetingFebruary 20, 1985 - 8:45 A.M. - Roosevelt Room

	Action	FYI		Action	FYI
<b>ALL CABINET MEMBERS</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CEA</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>CEQ</b>	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>OSTP</b>	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>Deaver</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>McFarlane</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>Svahn</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<b>Chew (For WH Staffing)</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<b>Chapman</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<b>OMB</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<b>CIA</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	<b>Executive Secretary for:</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>CCCT</b>	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCEA</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>GSA</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCFA</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>EPA</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCHR</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>NASA</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCLP</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>OPM</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCMA</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>VA</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCNRE</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>SBA</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>			

**REMARKS:**

There will be a Cabinet Council on Commerce and Trade Planning Meeting on Wednesday, February 20, at 8:45 A.M. in the Roosevelt Room.

The agenda is recommendations of the President's Commission on Industrial Competitiveness. Background papers are attached.

**RETURN TO:**

☐ Alfred H. Kingon  
Cabinet Secretary  
456-2823  
(Ground Floor, West Wing)

☐ Don Clarey  
☐ Tom Gibson  
☒ Larry Herbolsheimer

Associate Director  
Office of Cabinet Affairs  
456-2800 (Room 129, OE08)

DCI  
EXEC  
REG

THE WHITE HOUSE

WASHINGTON

February 19, 1985

MEMORANDUM FOR THE CABINET COUNCIL ON  
COMMERCE AND TRADE

FROM: MICHAEL A. DRIGGS *mad*

SUBJECT: Recommendations of The President's  
Commission on Industrial Competitiveness

Background

This is the third set of recommendations to be presented to the Council from the President's Commission on Industrial Competitiveness (PCIC). The last meeting of the Council to consider these items was on January 14, 1985. At that time, review was completed on sixteen PCIC recommendations covering 47 different action items (approximately half of the total).

This set of recommendations contains items dealing with science and technology, commercializing new technologies, intellectual property, antitrust laws, employee/employer relations and export controls. On March 6th, the Council is scheduled to meet again to review all remaining recommendations of the PCIC. A work plan showing the schedule of actions of the Cabinet Council Working Group on Industrial Competitiveness and the scheduled meetings of the Council is presented at Tab A for your background.

As in the past, the Cabinet Council Working Group on Industrial Competitiveness has met and reviewed each of these recommendations. The Working Group includes representatives from Departments of Commerce, Treasury, Labor, Justice, and Education, the Office of Management and Budget, the Office of the U.S. Trade Representative, and the Council of Economic Advisors.

Recommendations

The actual recommendations of the Commission and supporting papers are presented at Tab B. Each PCIC recommendation is summarized below along with the Working Group's recommendation for Council action.

1. The Commission recommends the creation of a cabinet-level Department of Science and Technology.

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The PCIC's recommendation was designed to create a symbol which would highlight the importance of research and technological development. It also assumed that science and research policy-making would be improved if it were centralized. The Working efforts Group fully supports the objectives of the Commission. We believe, however, that creation of a new Department of Science and Technology is not the best way of doing this. The Science Advisor to the President and the Office of Science and Technology Policy are already in a position to call Presidential and public attention to federal efforts. A new department also could create pressure for greater federal funding; not the most effective way to improve competitiveness. Rather it would be better to improve the climate for private investment and to rely on the market to allocate those investments. THE WORKING GROUP RECOMMENDS THAT THE CABINET COUNCIL TAKE NO ACTION ON THIS RECOMMENDATION.

2. The U.S. Government should make the strengthening of intellectual property rights at home and abroad a priority item on the nation's policy agenda and commit itself to implementing a detailed strategy designed to achieve this goal.

The Administration has made a firm commitment to furthering protections granted to holders of intellectual property rights. On February 13th, for example, the Council reiterated this view by endorsing a proposal that the United States should adopt the Berne Convention for stronger protection of international copyright laws. THE WORKING GROUP RECOMMENDS THAT THE COUNCIL REAFFIRM THE ADMINISTRATION'S COMMITMENT TO USE AVAILABLE AUTHORITIES IN THIS AREA TO ENHANCE INTELLECTUAL PROPERTY RIGHTS, INCLUDING THE TRADE AND TARIFF ACT OF 1984, AND THAT THE U.S. TRADE REPRESENTATIVE'S OFFICE BE ENCOURAGED TO CONSIDER PLACING INTELLECTUAL PROPERTY MATTERS AS A HIGH PRIORITY IN ITS STRATEGY FOR A NEW ROUND OF TRADE NEGOTIATIONS.

3. The private sector, educational institutions, and the government should initiate actions intended to improve the use of manufacturing technology and R&D for competitive products and services for U.S. firms. Four specific actions are proposed: a) expand support for NSF engineering research centers, b) extend the R&D tax credit to include manufacturing-related R&D expenses, c) federal support for research for manufacturing automation, and d) efforts to facilitate U.S. manufacturer's use of manufacturing technologies.

The Working Group believes that the Commission has identified an area that has not received the attention it should have in the last several years. We support the

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recommendations which encourage the private sector and institutions to give further emphasis to manufacturing activities. At a time of severe fiscal restraint, however, the Working Group believes that it would be inappropriate for the federal government to expand its support of any specific R&D projects nor to state as a policy that any one activity should be given priority over others of perhaps equal importance. THE WORKING GROUP RECOMMENDS THAT THE COUNCIL ENDORSE THE RECOGNITION OF THE IMPORTANCE OF MANUFACTURING RESEARCH.

4. American management should use available incentive mechanisms to reward employees and back performance. The federal government should augment these incentives by eliminating as a tax preference item the spread between exercise price and market value for the exercise of incentive stock options, remove the annual \$100,000 ceiling on ISO's and delete the rule requiring ISO's be exercised in sequential order.

The Working Group recognizes the objective of this recommendation and supports its intent. It believes that the Council should endorse the concept that American management should be more creative and more aggressive in using incentive mechanisms. The group does not, however, endorse specific tax changes because they run counter to the Administration's efforts to reform and simplify taxes as well as having the potential of a significant budgetary impact. Members of the Working Group also expressed concern that federal action in response to this recommendation not be presented in a way which could be interpreted as interfering with collective bargaining practices. THE WORKING GROUP RECOMMENDS NO FURTHER ACTION BY THE COUNCIL.

5. To facilitate the delivery of employee training by the employer the federal government should a) pursue macroeconomic strategies designed to maintain economic growth and reduce employment, b) strive to achieve balanced tax treatment of employee investments in physical and human capital, c) strengthen the ability of educational institutions to provide customized training programs, and d) remove tax disincentives for individuals being trained through employer-financed educational programs.

The Working Group believes that the thrust of this objective is consistent with current Administration policies. Many efforts are underway to foster economic growth, to reduce unemployment, and to reform tax policy. The tone of this recommendation, for example, is consistent with the Joint Partnership and Training Act in which the federal government

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works closely with the private sector. The Working Group also agrees with the objective that the tax system should not provide a disincentive to individuals being trained in employer-financed educational programs. As future reforms to the tax code are considered, the federal government should move in this direction so that incentives for both training and capital investment can be aligned. THE WORKING GROUP RECOMMENDS NO FURTHER ACTION ON THIS RECOMMENDATION.

6. To increase dialogue among government, industry, and labor, a) a small White House staff should be established to study and advise the President on competitive dynamics, b) membership and charters of current advisory committees should be reviewed and changed to enhance their effectiveness to address competitive issues, c) the review of these advisory committees should address the desirability of expanding the charter to include domestic economic issues affecting competitiveness.

The Working Group believes that a new White House office to advise the President on competitive dynamics is unnecessary. A number of organizations currently exist in the Office of Management and Budget, the Office of Science and Technology Policy, the Council of Economic Advisors, as well as in the White House staff itself which are aware of competitive issues. THE WORKING GROUP RECOMMENDS NO ACTION ON THIS RECOMMENDATION.

The Working Group supports items b and c however. There are currently at least 115 advisory committees in the Departments of Commerce, Labor, Treasury, and USTR. The group believes that this recommendation should be expanded to cover all agencies. For example, the Department of Education has a major advisory group called the Council on Vocational Education. THE WORKING GROUP RECOMMENDS, THEN, THAT THE COUNCIL ADOPT RECOMMENDATIONS b AND c AND ENCOURAGE THE AGENCIES TO IMPLEMENT THIS AS CHARTERS AND APPOINTMENTS COME UP FOR REVIEW.

7. U.S. antitrust policy should be reformed by a) modifying Section 7 of the Clayton Act to recognize efficiency gains from business combinations, b) seek legislation restricting treble damage liability to specific cases, and c) create procedures under which interested government agencies participate with the Department of Justice in setting antitrust policy and reviewing specific antitrust cases.

The Working Group was split on item a. A number of agencies believe that revision of Section 7 of the Clayton Act is unnecessary because both Justice and the FTC already follow guidelines that reflect the reality of global competition and reflect efficiency gains from business combinations.

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Proposing changes to the Clayton Act might also open the door to a total revision of the Act. Other agencies, however, believe quite strongly that the Clayton Act should be revised. The Department of Commerce is preparing draft legislation to do this. THE WORKING GROUP RECOMMENDS THAT THE CABINET COUNCIL TAKE NO ACTION AT THIS TIME. RATHER, THE COUNCIL SHOULD AWAIT THE PREPARATION OF A RECOMMENDATION BY THE DEPARTMENT OF COMMERCE FOR LATER DECISION BY THE CABINET COUNCIL.

The Working Group supports the Commission's recommendation to seek a restriction for treble damage liability. We believe that it should be done, but that time is needed to gather public support as well as develop a specific proposal to deal with this. THE WORKING GROUP RECOMMENDS THAT THE CABINET COUNCIL DESIGNATE THE DEPARTMENT OF JUSTICE AS THE LEAD AGENCY TO WORK WITH OTHER FEDERAL AGENCIES AS WELL AS THE PRIVATE SECTOR TO DEVELOP A PROPOSAL FOR LATER CABINET COUNCIL REVIEW AND DECISION.

The Working Group supports the objective of the Commission's recommendation that there should be greater interagency involvement in development of antitrust policy. The group was split on the appropriate interagency role in individual enforcement decisions. Which must not give the appearance of political manipulation. Therefore, THE WORKING GROUP RECOMMENDS THAT THE CABINET COUNCIL ENDORSE THE OBJECTIVE OF THE COMMISSION'S RECOMMENDATION BUT BELIEVES THAT NO FORMAL SYSTEM SHOULD BE CREATED. Rather, THE COUNCIL SHOULD ENCOURAGE THE DEPARTMENT OF JUSTICE TO SEEK CONSULTATION FROM AFFECTED AGENCIES AS APPROPRIATE.

8. Export control should be enhanced by a) ensuring that national security export controls are consistently applied by COCOM members, b) seeking a COCOM goal to eliminate intra-COCOM controls within five years, c) use foreign policy controls only after applying systematic diplomatic remedies, d) develop the capability to seek a multilateral consensus among potential suppliers, and e) streamline existing licensing for all export control.

The Working Group, with minor reservations, supports this recommendation. We agree that there must be increased cooperation among the COCOM nations and that export control should be consistently applied. Member nation enforcement practices should also be upgraded. The federal government cannot, however, ensure compliance and implementation of such a complex program, although we should seek it as an objective. Item c is supportive of current practices to explore other alternatives to further U.S. foreign policy before applying export controls.

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Finally, items d and e are consistent with current Department of Commerce efforts to improve the effectiveness of export administration. THE WORKING GROUP RECOMMENDS THAT THE COUNCIL APPROVE THESE ITEMS AS CONSISTENT WITH, AND SUPPORTIVE OF, CURRENT ADMINISTRATIVE EFFORTS.

9. Federal policy dealing with competitiveness should take note of the significant role played by state and local governments as well as entrepreneurs and improve the exchange of ideas.

The Working Group believes that the Commission has recognized an important aspect of American competitiveness. A number of departments have actions underway to meet the objective of this recommendation. The group also noted that both American Express and the Chemical Bank have already begun to respond to the Commission by printing the PCIC studies of this area for private distribution. THE WORKING GROUP RECOMMENDS THAT THE COUNCIL ADOPT THIS RECOMMENDATION.

CCCT WORK SCHEDULE FOR PCIC RECOMMENDATIONS

	2/5	2/8	2/13	2/15	2/20	2/27	3/6	3/13	3/20	4/3
Summarize agency positions on November recommendations and send to Working Group	▲									
Summarize agency positions on December recommendations and send to Working Group		▲								
Working Group meets to develop position for CCCT on November recommendations			▲							
CCCT memorandum on November recommendations is prepared				△						
CCCT meets on November recommendations					△					
Working Group meets to develop position for CCCT on December recommendations					△					
Minutes reflecting CCCT decision on November recommendations are distributed						△				
CCCT memorandum on December recommendations is prepared						△				
CCCT meets on December recommendations							△			
Minutes reflecting CCCT decision on December recommendations are distributed								△		
CCCT Report to the President on the PCIC is prepared									△	
Eximbank Chairman Draper to prepare report on mixed credit financing										(to be scheduled)
Undersecretaries Wallis and Olmer to meet on Embassies' export strategies										(to be scheduled)
CCCT meets to review followup reports related to recommendations on the Export-Import Bank and on U.S. Embassies' export promotion strategies										△

Legend:      ▲ Action already completed  
                  △ Action scheduled





PRESIDENT'S COMMISSION ON Industrial Competitiveness

John A. Young  
Chairman

November 26, 1984

MEMORANDUM TO CABINET COUNCIL ON COMMERCE AND TRADE

FROM:

*John A. Young*  
for JOHN YOUNG

SUBJECT: COMMISSION RECOMMENDATIONS

Attached are nine recommendations approved by the Commission on October 23-24 in Dallas, Texas, for CCCT consideration.

These recommendations cover:

- Department of Science and Technology
- Protection of Intellectual Property Rights
- Commercializing New Technologies through Improved Manufacturing
- Employee Incentives
- Workforce Skills
- Dialogue Among Government, Industry and Labor
- U.S. Antitrust Policy
- Export Controls and Competitiveness
- State and Local Government Initiatives and Entrepreneurship

The back-up issue papers and supporting documentation for each recommendation are contained in the attached briefing book.

Two additional recommendations from the Dallas meeting are undergoing final review. They cover:

- Health and Safety Regulations and Technological Innovation Needs
- Trade and Investment Policy

Attachments: Recommendations and Supporting Issue Papers

PROMOTE NATIONAL INTERESTS AND POLICIES FOR  
RESEARCH AND TECHNOLOGICAL INNOVATION THROUGH A  
NEW DEPARTMENT OF SCIENCE AND TECHNOLOGY

RECOMMENDATION

The role of science and technology in our lives and institutions is enormous and growing. We live in a world whose economy is driven by the introduction and use of technologies, and the progress of American industry—measured in terms of industrial competitiveness—and the strength of the American economy are paced by how well our nation advances and uses science and technology. Today science and technology are truly the underpinnings of our national well-being, and nearly every national policy either affects or is affected by science and technology.

The U.S. is the largest supporter of science and technology in the world, and a central feature of that support is the multiplicity of government roles -- performer, manager, stimulus, funder, and policymaker. Yet within the federal government there is no operational focus for this critical element in our future. Science and technology need a higher level of attention, greater predictability of support, more coherent policies, and better long-range planning to enhance the competitive status of our nation.

For these reasons, the Committee recommends the creation of a Cabinet-level Department of Science and Technology. Such a Department would transform the current, fragmented formulation of policies for science and technology into one that would be far more effective in meeting long-term national goals. It would also improve the effectiveness with which government, industry, and academia interact in the process of researching, developing, and commercializing technology.

The Secretary of Science and Technology would be the major spokesman within the government on science and technology issues. In effect, this position would be the highest science and technology post in the government and the Department would become one where the President and other Cabinet members can turn for advice on science and technical issues. This Department would coordinate with other departments the functions that have significant responsibilities related to science and technology, and would help to develop links to scientists outside of government.

The new Department of Science and Technology would ensure a national science and technology base strong enough to meet the competition that confronts both industry and government. It would:

- \* Make clear the importance of science and technology at a time when technological innovation is the key to enhanced U.S. industrial competitiveness.

- \* Establish an authoritative Cabinet-level voice within government to deal with the interactions between emerging issues and their science and technology components.
- \* Improve the management of federal R&D in labs and agencies under direct jurisdiction of the Department of Science and Technology.
- \* Coordinate the management of federal R&D and science and technology policy with other federal research organizations not under the jurisdiction of the Department of Science and Technology.
- \* Provide comprehensive evaluation and analysis for the President regarding science and technology policies -- including funding, regulation, protection of intellectual property, and tax incentives -- of all departments and government agencies that can have an impact on science, innovation, and competitiveness.

The primary missions of the Department within the government would be to:

- \* Ensure effective funding for R&D to promote research and technological innovation in government and the nation.
- \* Develop long-term strategic plans to build the science and technology base in support of research, development, and technological innovation in government, industry, and academia.
- \* Analyze and promote policies throughout government that would better address the needs of scientific and technical research, innovation, and development.

In pursuit of those missions the Department would place high priority on the support of basic research across the broad, often unpredictable, spectrum of topics that have potential long-term benefit to the nation. It is particularly important for the United States to embrace as a fundamental objective the enhancement of industrial competitiveness. To help meet that goal, wherever appropriate the Department should specifically apply two criteria in the management of R&D:

- \* Emphasize programs that will increase the pool of scientists and engineers needed by industry.
- \* Emphasize programs with potential to produce technologies of generic importance to industry and government.

\* \* \* \*

## STRENGTHENING THE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

### RECOMMENDATION

TO ENHANCE U.S. INDUSTRIAL COMPETITIVENESS, THE COMMISSION RECOMMENDS THAT THE U.S. GOVERNMENT MAKE THE STRENGTHENING OF INTELLECTUAL PROPERTY RIGHTS AT HOME AND ABROAD A PRIORITY ITEM ON THE NATION'S POLICY AGENDA, AND, TOGETHER WITH INDUSTRY, COMMIT ITSELF TO IMPLEMENTING A DETAILED STRATEGY OF ACTIONS DESIGNED TO ACHIEVE THIS GOAL.\*

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\* The detailed strategy encompasses, but goes beyond, the four specific recommendations on intellectual property approved previously by PCIC.

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## **COMMERCIALIZING NEW TECHNOLOGIES THROUGH IMPROVED MANUFACTURING**

### **RECOMMENDATIONS**

BECAUSE OF INATTENTION IN MANY U.S. ORGANIZATIONS OVER THE LAST GENERATION, THE ABILITY TO USE MANUFACTURING TECHNOLOGIES FOR COMPETITIVE ADVANTAGE OVER FOREIGN FIRMS HAS BECOME ONE OF THE WEAKEST PERFORMING AREAS, AS MEASURED BY RELATIVE PRODUCTIVITY GROWTH, TECHNOLOGICAL INNOVATION, AND APPLICATIONS OF ROBOTS AND AUTOMATION TECHNIQUES. IT IS RECOMMENDED THAT THE PRIVATE SECTOR, EDUCATIONAL INSTITUTIONS, AND GOVERNMENT INITIATE ACTIONS INTENDED TO IMPROVE THE DEVELOPMENT AND USE OF MANUFACTURING TECHNOLOGIES TO TRANSFORM R&D RESULTS INTO COMPETITIVE PRODUCTS AND SERVICES FOR U.S. FIRMS.

#### **RECOMMENDED ACTIONS FOR PRIVATE ORGANIZATIONS ARE:**

- ALL INDUSTRIAL FIRMS MUST GIVE INCREASED MANAGEMENT ATTENTION TO THE NEED TO IMPROVE THEIR MANUFACTURING CAPABILITIES -- BY INCREASING PRODUCTIVITY, BY PROMOTING TECHNOLOGICAL INNOVATION, BY IMPROVING QUALITY, BY MODERNIZING PRODUCTION FACILITIES, AND BY ORGANIZING INTERNAL FUNCTIONS TO REDUCE TIME AND RESOURCES REQUIRED IN TAKING A NEW PRODUCT DESIGN TO COMMERCIAL PRODUCTION.
- MONEY MANAGERS, BANKERS, ACCOUNTANTS, STOCKHOLDERS, AND BUSINESS LEADERS SHOULD BE CHALLENGED TO DE-EMPHASIZE SIMPLE, SHORT-TERM FINANCIAL MEASURES, AND INSTEAD TO DEVELOP AND UTILIZE PERFORMANCE MEASURES MORE CONSISTENT WITH LONG-RANGE COMPETITIVENESS AND PROFITABILITY.
- INDUSTRY SHOULD INCREASE ITS SUPPORT FOR UNIVERSITY-INDUSTRY AND JOINT INDUSTRY COOPERATIVE RESEARCH ACTIVITIES THAT MEET THEIR SPECIFIC TECHNOLOGY NEEDS WITH THE OBJECTIVE OF REDUCING THE GAP BETWEEN THE DEVELOPMENT AND APPLICATION OF NEW TECHNOLOGIES AND MANUFACTURING PROCESS.

#### **RECOMMENDED ACTIONS FOR EDUCATIONAL ORGANIZATIONS ARE:**

- UNIVERSITIES, INDUSTRY AND GOVERNMENT MUST WORK TOGETHER TO IMPROVE BOTH THE QUALITY AND QUANTITY OF MANUFACTURING-RELATED EDUCATION GIVEN BY BOTH ENGINEERING AND BUSINESS SCHOOLS.
- INITIATE (WITH INDUSTRY AND GOVERNMENT SUPPORT) RESEARCH TO INCREASE OUR UNDERSTANDING OF THE MANAGEMENT OF TECHNOLOGICAL INNOVATION AND IMPROVED METHODS OF ANALYZING RELATIONSHIPS BETWEEN MANUFACTURING AND R&D IN ORDER TO AID POLICY DEVELOPMENT IN THIS COMPLEX AREA.

**RECOMMENDED ACTIONS FOR GOVERNMENT ARE:**

- THE FEDERAL GOVERNMENT SHOULD EXPAND SUPPORT FOR MANUFACTURING-RELATED ACTIVITIES IN UNIVERSITIES THROUGH SUCH ACTIONS AS EXPANDING NSF ENGINEERING RESEARCH CENTERS THAT FOCUS ON MANUFACTURING RESEARCH.
- IN ORDER TO PROVIDE THE FUNDS NECESSARY FOR U.S. FIRMS TO BRING THE FRUITS OF R&D TO MARKET, THE R&D TAX CREDIT SHOULD BE STRENGTHENED AND CLARIFIED TO INCLUDE EXPENSES INVOLVED IN DEVELOPING AND IMPLEMENTING INNOVATIVE MANUFACTURING PROCESSES, MACHINERY, AND FACILITIES.
- AGGRESSIVE FEDERAL SUPPORT IS NEEDED FOR RESEARCH AND ASSISTANCE WITH INTERFACE AND DATA EXCHANGE STANDARDS FOR MANUFACTURING AUTOMATION.
- FEDERAL AGENCIES SHOULD UNDERTAKE SPECIAL EFFORTS TO FACILITATE U.S. MANUFACTURERS GENERALLY TO MAKE USE OF ADVANCED MANUFACTURING TECHNOLOGIES DEVELOPED BY THOSE AGENCIES FOR THEIR OWN MISSIONS.

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## EMPLOYEE INCENTIVES

### RECOMMENDATIONS

TO ACHIEVE INCREASED PRODUCTIVITY AND IMPROVED QUALITY, FIRMS NEED THE MAXIMUM COMMITMENT OF THEIR EMPLOYEES AT EVERY LEVEL. SUCH COMMITMENT CANNOT BE EXACTED; RATHER, IT IS THE CONSEQUENCE OF EMPLOYMENT SECURITY, THE COOPERATION ACHIEVED BETWEEN MANAGEMENT AND LABOR, AND POSITIVE INCENTIVES TO EMPLOYEES WHICH REINFORCE INDIVIDUAL EXCELLENCE.

1) AMERICAN MANAGEMENT IS URGED TO MAKE USE OF THE BROAD ARRAY OF INCENTIVE MECHANISMS AVAILABLE TO IT TO REWARD THE EFFORT OF INDIVIDUAL EMPLOYEES AND TO STRENGTHEN THE LINKAGE BETWEEN PAY AND PERFORMANCE. AMONG THESE ARE COMPENSATION PLANS, SUCH AS GAINSHARING AND PROFITSHARING, WHICH LINK INDIVIDUAL PAY WITH THE SUCCESS OF THE FIRM, AND EQUITY OWNERSHIP PROGRAMS, SUCH AS INCENTIVE STOCK OPTIONS (ISOs) AND EMPLOYEE STOCK OWNERSHIP PLANS (ESOPs); WHICH ENHANCE THE INDIVIDUAL'S STAKE IN THE FIRM'S LONG-TERM SUCCESS THROUGH EMPLOYEE STOCK OWNERSHIP. INCENTIVES SHOULD BE APPLIED WITH SENSITIVITY TO THEIR IMPACT ON THE MOTIVATION AND MORALE OF ALL EMPLOYEES.

2) WITH RESPECT TO INCENTIVE STOCK OPTIONS, PUBLIC POLICY CHANGES ARE NEEDED TO AUGMENT THEIR USEFULNESS AS A MECHANISM FOR IMPROVING EMPLOYEE PRODUCTIVITY. SPECIFICALLY, CONGRESS SHOULD ACT TO: A) AMEND SECTION 57(A) OF THE INTERNAL REVENUE CODE TO ELIMINATE AS A TAX PREFERENCE ITEM THE SPREAD BETWEEN EXERCISE PRICE AND FAIR MARKET VALUE THAT EXISTS AT THE TIME OF EXERCISING ISOs; B) AMEND SECTION 422A OF THE CODE TO REMOVE THE CEILING LIMITING THE GRANTING OF ISOs TO AN AGGREGATE VALUE OF LESS THAN \$100,000 IN ANY ONE YEAR; AND C) AMEND SECTION 422A OF THE CODE TO DELETE THE RULE REQUIRING ISOs TO BE EXERCISED IN SEQUENTIAL ORDER. ADDITIONALLY, CURRENT ACCOUNTING TREATMENT OF ISOs SHOULD BE PRESERVED.

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## IMPROVING WORKFORCE SKILLS

### RECOMMENDATION

EMPLOYEE TRAINING IS A CORNERSTONE OF ANY POLICY AIMED AT MAINTAINING INDUSTRIAL COMPETITIVENESS. IT PROVIDES THE PRIMARY VEHICLE FOR UPGRADING THE SKILLS OF THE WORKFORCE—AN EFFORT CRITICAL TO CONTINUED ECONOMIC VIABILITY AT A TIME WHEN THE U.S. ECONOMY IS UNDERGOING STRUCTURAL SHIFTS AND TECHNOLOGY IS CHANGING THE WAY WE WORK. WHILE MUCH EMPHASIS HAS BEEN PLACED ON THE MODERNIZATION OF PLANT AND EQUIPMENT TO ENHANCE PRODUCTIVITY, THESE EFFORTS MUST BE ACCOMPANIED BY SIMILAR UPGRADING OF HUMAN RESOURCES IF LONG-TERM GAINS IN PRODUCTIVITY ARE TO BE REALIZED.

PRECISELY HOW TECHNOLOGY AND STRUCTURAL CHANGES WILL AFFECT HOW AMERICANS WORK AND AT WHAT THEY WORK IS YET TO BE DISCOVERED. WHAT IS CERTAIN IS THAT INSTITUTIONS AND INDIVIDUALS WILL BE REQUIRED TO BE INCREASINGLY ADAPTABLE. THE INSTITUTIONS THROUGH WHICH THIS CAN BE ACCOMPLISHED ARE LARGELY IN PLACE. EMPLOYERS, DIRECTLY AND INDIRECTLY THROUGH OUTSIDE EDUCATIONAL INSTITUTIONS, PROVIDE MORE JOB-RELATED ADULT EDUCATION THAN ANY OTHER SECTOR. PUBLIC POLICY, TO FACILITATE THE DELIVERY OF TRAINING BY EMPLOYERS, SHOULD:

- 1) PURSUE MACROECONOMIC STRATEGIES DESIGNED TO MAINTAIN ECONOMIC EXPANSION AND REDUCE UNEMPLOYMENT. EMPLOYEE TRAINING IS HIGHLY REACTIVE TO ECONOMIC CYCLES; WHEN THE ECONOMY IS SLOW, EMPLOYERS HAVE LITTLE INCENTIVE TO INVEST IN THE DEVELOPMENT OF THEIR HUMAN RESOURCES, TENDING INSTEAD TO INVEST IN LABOR-SAVING DEVICES TO CUT COSTS. REDUCED UNEMPLOYMENT AND EXPANDED DEMAND WILL RESULT IN AUGMENTED EMPLOYER INVESTMENT IN TRAINING. SIMILARLY, INDIVIDUALS WILL HAVE INCENTIVE TO INVEST IN THEIR OWN TRAINING, AS THE OPPORTUNITIES FOR INCREASED WAGES AND GREATER OCCUPATIONAL MOBILITY DERIVED FROM SUCH TRAINING ARE INCREASED BY EXPANDING DEMAND.
- 2) STRIVE TO ACHIEVE BALANCED TAX TREATMENT OF EMPLOYER INVESTMENTS IN PHYSICAL AND HUMAN CAPITAL. PROPOSALS FOR TAX RESTRUCTURING SHOULD BE EVALUATED WITH RESPECT TO THEIR IMPACT ON CREATING INCENTIVES OR DISINCENTIVES FOR INVESTMENT IN TRAINING. EMPHASIS ON PHYSICAL CAPITAL INVESTMENT ALONE IS NOT ENOUGH. COMPARABLE HUMAN CAPITAL INVESTMENT INCENTIVES MUST BE AVAILABLE TO ASSURE LONG-TERM PRODUCTIVITY GROWTH AND AVOID JOB LOSS.
- 3) STRENGTHEN THE CAPACITY OF VOCATIONAL EDUCATION INSTITUTIONS AND COMMUNITY COLLEGES TO PROVIDE CUSTOMIZED TRAINING PROGRAMS FOR EMPLOYERS, PARTICULARLY FOR SMALLER FIRMS LACKING INHOUSE TRAINING PERSONNEL. WHILE THERE ARE MANY VOCATIONAL TECHNICAL INSTITUTES AND COMMUNITY COLLEGES WHICH PROVIDE EMPLOYER-SPECIFIC TRAINING, THE EFFECTIVENESS OF THESE INSTITUTIONS IN DOING SO IS HAMPERED BY: A) LACK OF INFORMATION ON EMERGING OCCUPATIONAL SKILLS DEMANDED BY EMPLOYERS AND TRANSLATION OF THIS INTO CURRICULA WHICH ARE RESPONSIVE TO EMPLOYERS' NEEDS; B) INADEQUATE RESOURCES FOR POSTSECONDARY PROGRAMS, MAKING IT DIFFICULT FOR INSTITUTIONS TO ATTRACT INSTRUCTORS QUALIFIED TO TEACH IN



TECHNICAL AND SCIENCE FIELDS; AND C) LACK OF UP-TO-DATE EQUIPMENT FOR TRAINING.

TO ADDRESS THE PROBLEM OF INADEQUATE INFORMATION CONCERNING EMPLOYERS' TRAINING NEEDS, THE COMMISSION ENDORSES THE ESTABLISHMENT OF TECHNICAL COMMITTEES COMPRISED OF REPRESENTATIVES OF EMPLOYERS, LABOR, AND PROFESSIONAL AND TRADE ASSOCIATIONS, AS PROVIDED IN THE RECENT REAUTHORIZATION OF THE FEDERAL VOCATIONAL EDUCATION ACT. THE PURPOSE OF THESE COMMITTEES IS TO GUIDE THE DEVELOPMENT OF CURRICULA IN SPECIFIC OCCUPATIONS TO ASSURE THAT VOCATIONAL PROGRAMS ARE RESPONSIVE TO THE TRAINING NEEDS OF EMPLOYERS.

TO RESPOND TO THE CHANGING DEMOGRAPHICS OF THE POPULATION AND THE TRENDS CREATING INCREASING DEMAND FOR TRAINING AND RETRAINING OF ADULTS, GREATER EMPHASIS SHOULD BE PLACED BY THE VOCATIONAL EDUCATION ACT ON POSTSECONDARY VOCATIONAL EDUCATION. THE CURRENT 20 PERCENT SET-ASIDE FOR POSTSECONDARY VOCATIONAL EXPENDITURES SHOULD BE INCREASED TO REFLECT MORE CLOSELY THE PROPORTION OF INDIVIDUALS ENROLLED IN VOCATIONAL AND TRAINING PROGRAMS AT THE POSTSECONDARY LEVEL. INCREASED SUPPORT FOR POSTSECONDARY PROGRAMS SHOULD ENHANCE THE CAPACITY OF THESE INSTITUTIONS TO OBTAIN QUALIFIED FACULTY AND PROVIDE SERVICES WHICH ARE MORE RESPONSIVE TO THE CUSTOMIZED NEEDS OF INDUSTRY. THIS INCREASED EMPHASIS ON POSTSECONDARY PROGRAMS SHOULD BE ACCOMPANIED BY A PROPORTIONATE REDUCTION IN FEDERAL SUPPORT FOR SECONDARY-LEVEL PROGRAMS, REFLECTING THE STRONG STATE SUPPORT FOR THE LATTER AND DECLINING DEMAND RESULTING FROM THE AGING OF THE POPULATION.

FINALLY, TO ALLEVIATE THE SHORTAGE OF UP-TO-DATE INSTRUCTIONAL EQUIPMENT, STATES SHOULD BE ENCOURAGED TO ESTABLISH EQUIPMENT POOLS FOR THE SHARING OF EQUIPMENT AMONG INSTITUTIONS. THIS WOULD PROVIDE ACCESS TO STATE-OF-THE-ART EQUIPMENT OTHERWISE NOT AFFORDABLE BY INDIVIDUAL INSTITUTIONS AND, DUE TO ECONOMIES OF SCALE, ENABLE STATES TO TURN OVER OBSOLESCING EQUIPMENT MORE QUICKLY THAN COULD INDIVIDUAL INSTITUTIONS. THE SECRETARY OF EDUCATION IS ENCOURAGED TO MAKE COMPETITIVE GRANTS TO STATES FOR THIS PURPOSE, UNDER AUTHORITY GRANTED HIM IN THE RECENT REAUTHORIZATION OF THE VOCATIONAL EDUCATION ACT. ADDITIONALLY, WHERE POSSIBLE, EMPLOYERS FOR WHOM CUSTOMIZED TRAINING IS BEING PROVIDED SHOULD BE ENCOURAGED TO LOAN EQUIPMENT FOR TRAINING TO THE INSTITUTION INVOLVED.

- 4) EXTEND PERMANENTLY SECTION 127 OF THE INTERNAL REVENUE CODE TO REMOVE TAX DISINCENTIVES FOR INDIVIDUALS BEING TRAINED THROUGH EMPLOYER-FINANCED EDUCATION PROGRAMS. RECENTLY RE-ENACTED THROUGH 1985, SECTION 127 PROVIDES THAT THE VALUE OF EMPLOYER-FINANCED EDUCATION AID (TUITION, BOOKS, FEES) IS NOT INCLUDABLE IN EMPLOYEE INCOME. WITHOUT THIS PROVISION, ALL EDUCATION AND TRAINING EXPENDITURES ARE TAXABLE TO THE INDIVIDUAL EMPLOYEE, UNLESS DEEMED TO BE "JOB-RELATED" (DEFINED AS TRAINING WHICH MAINTAINS OR IMPROVES THE SKILLS USED IN AN EXISTING TRADE OR BUSINESS OR WHICH IS REQUIRED BY THE INDIVIDUAL'S EMPLOYER AS A CONDITION OF CONTINUED EMPLOYMENT). TRAINING WHICH IS "JOB-RELATED," BUT WHICH ALSO QUALIFIES THE

INDIVIDUAL FOR A NEW TRADE OR BUSINESS IS NON-DEDUCTIBLE. WITHOUT SECTION 127, THERE IS A MAJOR DISINCENTIVE TO INDIVIDUALS SEEKING TO UPGRADE SKILLS OR ENHANCE OCCUPATIONAL MOBILITY THROUGH COURSES FINANCED BY THEIR EMPLOYERS.

IN ADDITION TO THESE PUBLIC POLICY CHANGES, EMPLOYERS ARE ENCOURAGED TO TAKE A MORE SYSTEMATIC APPROACH TO THEIR TRAINING ACTIVITIES AND TREAT THEM AS ANY OTHER MAJOR BUSINESS ACTIVITY. IN SO DOING, IT IS LIKELY THAT EMPLOYER-PROVIDED TRAINING WILL BECOME LESS REACTIVE AND MORE FULLY INTEGRATED INTO THE ONGOING PLANNING AND OPERATION OF THE FIRM. EMPLOYERS ARE URGED TO ASSESS THE NATURE OF THEIR TRAINING EFFORTS, TO MAKE USE OF NEW TRAINING TECHNOLOGIES WHERE POSSIBLE, AND TO GIVE PARTICULAR ATTENTION TO THE QUALITY AND EFFECTIVENESS OF TRAINING FOR FIRST-LINE SUPERVISORS.

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## INCREASING EFFECTIVE DIALOGUE AMONG GOVERNMENT, INDUSTRY, AND LABOR

### RECOMMENDATIONS

THE COMMISSION BELIEVES THAT EFFECTIVE MECHANISMS FOR DEVELOPING CONSENSUS AMONG KEY SECTORS OF SOCIETY ARE NECESSARY IF THE U.S. IS TO RESPOND EXPEDITIOUSLY TO THE COMPETITIVE CHALLENGES CONFRONTING IT. THE ABILITY OF THE POLITICAL DECISION-MAKING PROCESS TO ADDRESS MAJOR ECONOMIC PROBLEMS IS IMPEDED BY DYSFUNCTIONAL CONFLICT AMONG THE VERY SECTORS WHOSE COOPERATION IS NECESSARY IF THOSE PROBLEMS ARE TO BE RESOLVED. CITIZENS ADVISORY COMMITTEES COULD PROVIDE STRUCTURES WHICH WOULD ENABLE A COMMON PERCEPTION OF THE FACTS TO BE DEVELOPED, IMPLICIT TRADEOFFS AMONG POLICY OPTIONS TO BE MADE EXPLICIT, AND COUNTER-PRODUCTIVE CONFLICT TO BE MINIMIZED.

- 1) THE PRESIDENT'S ROLE IN HELPING TO DEVELOP SUCH A CONSENSUS WOULD BE GREATLY EXPEDITED IF HE HAD IMMEDIATE ACCESS TO RELIABLE, INDEPENDENT DATA AND ANALYSIS. AT THE PRESENT TIME, THE PRESIDENT MUST RELY ON AGENCIES WHOSE ADVICE MAY BE INFLUENCED BY THEIR SPECIAL INTEREST COMMITMENTS. THEREFORE, A POSITION IN THE WHITE HOUSE (POSSIBLY IN THE COUNCIL OF ECONOMIC ADVISORS), SHOULD BE CREATED WITH A SMALL STAFF OF PROFESSIONALS TO STUDY THE COMPETITIVE DYNAMICS OF OUR ECONOMY AND ADVISE THE PRESIDENT ON THESE MATTERS.
- 2) THE EXISTING ADVISORY COMMITTEES AFFILIATED WITH THE DEPARTMENTS OF COMMERCE, LABOR AND TREASURY, AND THE OFFICE OF THE U.S. TRADE REPRESENTATIVE OFFER A POSSIBLE BASIS FOR THE DEVELOPMENT OF CONSENSUS-BUILDING STRUCTURES. THE COMMISSION URGES THE PRESIDENT AND THE CONGRESS TO DIRECT THE HEADS OF THOSE AGENCIES TO UNDERTAKE A REVIEW OF THE COMMITTEE CHARTERS AND MEMBERSHIP, AND TO RECOMMEND MEANS OF ENHANCING THEIR EFFECTIVENESS TO ADDRESS COMPETITIVENESS ISSUES.
- 3) THE REVIEW OF ADVISORY COMMITTEE CHARTERS SHOULD ASSESS THE DESIRABILITY OF EXPANDING THE MISSION OF THE COMMITTEES TO INCLUDE THOSE DOMESTIC ECONOMIC ISSUES HAVING DIRECT BEARING ON COMPETITIVENESS. ADDITIONALLY, EXPLICIT MEANS OF ASSURING APPROPRIATE COORDINATION AMONG COMMITTEES SHOULD BE DETERMINED. TO STRENGTHEN THE REPRESENTATIVE CHARACTER OF THE COMMITTEES, IT IS URGED THAT CONSIDERATION BE GIVEN TO EXPANDING THE ROLE OF TRADE ASSOCIATIONS, LABOR REPRESENTATIVES, REPRESENTATIVES OF ACADEMIA, AND OTHER ORGANIZED CITIZENS GROUPS IN THE MEMBERSHIP OF THE COMMITTEES. LASTLY, A REVIEW OF THE STATUTORY AND CASE LAW GOVERNING THE COMMITTEES SHOULD BE MADE WITH THE GOAL OF RECOMMENDING MEANS OF PROTECTING PUBLIC ACCESS TO THE COMMITTEES, WHILE PERMITTING SOME PRIVATE MEETINGS TO ENCOURAGE CANDID DISCUSSION.

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## REFORMING U.S. ANTITRUST POLICY

### RECOMMENDATION

1. The Commission recommends that the President seek legislation modifying Section Seven (7) of the Clayton Act and other antitrust statutes to recognize the potential efficiency gains from business combinations, and the reflect the reality of global competition and global market definitions, where appropriate. In addition, specific antitrust exemptions should be considered for mergers and other types of business relationships which promote national objectives (e.g., public good, rationalization).
2. The Commission recommends that the President seek legislation restricting treble damage liability to behavior explicitly prohibited by law (per se unlawful behavior).
3. The Commission recommends that the Administration create a procedure under which interested government agencies participate with the Department of Justice periodically in setting antitrust policy, particularly with respect to business relationships normally subject to antitrust scrutiny. Interested agencies would also retain the right to intervene in specific antitrust decisions under consideration.

## EXPORT CONTROLS AND COMPETITIVENESS

### RECOMMENDATION

1. The Commission recommends that where comparable products or technologies are available from other sources, the U.S. Government should ensure that national security export controls are mutually agreed upon and consistently applied by all COCOM members (Coordinating Committee for Multilateral Export Controls) in order to be effective.
2. The Commission recommends that COCOM should establish a specific goal of upgrading member national enforcement practices such that all intra-COCOM controls can be eliminated within five years. New practices could include extradition provisions for diverters, sharing of information regarding suspected diverters, tightened east/west licensing and customs procedures, etc. If this is not feasible on a multilateral basis, bilateral or plurilateral (with a select group of other nations) negotiations should be pursued.
3. The Commission recommends that foreign policy controls should only be used after applying all feasible diplomatic remedies.
4. The Commission recommends that the U.S. should develop a capability to quickly identify sources of foreign availability, and seek multilateral consensus among potential suppliers to restrict exports to achieve foreign policy goals. Future foreign policy controls should only be applied after full consultation with other potential supplying countries, and after carefully weighing the full and certain cost to the American economy against the potential foreign policy benefits. Finally, future imposition of foreign policy controls should recognize the principle of contract sanctity and refrain from extraterritorial application except in cases of national emergency.
5. The Commission recommends that the existing licensing process for all export controls should be significantly streamlined and automated to provide timely responses competitive with other nations such as Japan, France, and the United Kingdom.

**PRESIDENT'S COMMISSION ON INDUSTRIAL COMPETITIVENESS**

**TASK FORCE ON STATE AND LOCAL GOVERNMENT INITIATIVES AND ENTREPRENEURSHIP**

**RECOMMENDATION**

The Commission takes note of the significant role state/local governments and entrepreneurs are playing in improving the competitiveness of American industry in world markets and, with a framework to exchange innovative ideas, state governments should continue to exercise initiatives in this field. Also, where appropriate, federal policy dealing with competitiveness should take note of this role by states and the entrepreneurial movement.

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